



REC'D TN  
REGULATORY AUTHORITY  
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OFFICE OF THE  
EXECUTIVE SECRETARY  
May 7, 1999

Mr. David Waddell  
Executive Secretary  
Tennessee Regulatory Authority  
460 James Robertson Parkway  
Nashville, TN 37243-0505

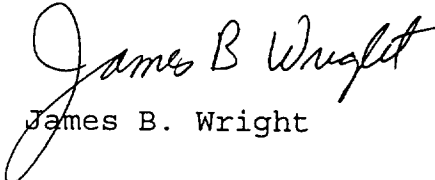
RE: Docket No. 98-00626 (UTSE Annual Price Cap Adjustment)  
UTSE Rebuttal Testimony

Dear Mr. Waddell:

Enclosed for filing in the above case are the original and thirteen copies of the Rebuttal Testimony of Mr. Steve Parrott on behalf of United Telephone-Southeast, Inc.

Please contact me if you have any questions regarding this filing.

Sincerely yours,

  
James B. Wright

JBW:sm

Enclosures

CC: Consumer Advocate (with enclosure)  
Guy Hicks (with enclosure)  
Paul Monk (with enclosure)  
John Hamlin (with enclosure)  
Steve Parrott (with enclosure)  
Dennis Wagner (with enclosure)  
Laura Sykora (with enclosure)

#17236

**UNITED TELEPHONE-SOUTHEAST, INC.**

**REBUTTAL TESTIMONY**

**OF**

**C. STEVE PARROTT**

**BEFORE THE**

**TENNESSEE REGULATORY AUTHORITY**

**DOCKET NO. 98-00626**

**MAY 7, 1999**

**UNITED TELEPHONE-SOUTHEAST, INC.**  
**REBUTTAL TESTIMONY OF C. STEVE PARROTT**  
**BEFORE THE TENNESSEE REGULATORY AUTHORITY**

**DOCKET NO. 98-00626**

**MAY 7, 1999**

1    **Q.     Please state you name and business address.**

2

3    **A.     My name is Charles S. (Steve) Parrott and my business address is 14111 Capital**  
4            Boulevard, Wake Forest, North Carolina, 27587-5900.

5

6    **Q.     Are you the same Charles S. Parrott who filed direct testimony in this**  
7            **proceeding on April 30, 1999?**

8

9    **A.     Yes. In that testimony I described my education and work experience relevant to**  
10           the issues in this proceeding.

11

12   **Q.     What is the purpose of your testimony?**

13

14   **A.     My rebuttal testimony responds to Consumer Advocate Division ("CAD")**  
15           witness Robert T. Buckner's allegations in his direct testimony that the 1998  
16           Annual Price Regulation Filing of United Telephone-Southeast, Inc. ("United")  
17           does not comply with the methodology approved by the Tennessee Regulatory  
18           Authority ("TRA") in Docket No. 96-01423.

19

1     **Q.     Mr. Parrott, is there a “deficiency” in United’s filing regarding Yellow Page**  
2     **revenues, as alleged by Mr. Buckner?**

3  
4     **A.     No, there is no deficiency in United’s filing regarding Yellow Page revenues. Mr.**  
5     **Buckner’s testimony on page 3 discusses “imputation of Yellow Page revenue”.**  
6     **The continued use of this phrase by the Consumer Advocate Division in the**  
7     **context of this proceeding serves no real purpose other than to introduce**  
8     **confusion into an issue that should be very straightforward. I would think that**  
9     **Mr. Buckner’s previous employment with the Tennessee Public Service**  
10    **Commission (“TPSC”) Staff as a financial analyst (with experience in conducting**  
11    **earnings reviews under traditional rate base/rate of return regulation) would allow**  
12    **him to draw a clear distinction between imputed earnings from Yellow Page**  
13    **operations under traditional regulatory plans and the treatment of United’s**  
14    **contract revenues from its directory publisher under price regulation. Under rate**  
15    **base/rate of return regulation, United was required to both impute earnings from**  
16    **its directory publishing and advertising affiliate and separately report and**  
17    **recognize contract revenues from the Company’s agreements with directory**  
18    **publishing companies.**

19  
20    **In accordance with Tennessee Code Annotated § 65-5-209 (c), the TPSC utilized**  
21    **United’s most recent Public Service Commission 3.01 report as audited by the**  
22    **commission staff (March, 1995) to evaluate the Company’s earnings and the**  
23    **affordability of United’s June 6, 1995 rates at the time the Company implemented**

1 price regulation. The March, 1995 3.01 report included **imputed earnings** from  
2 its affiliate Yellow Page operations (\$2.9 million) as an Adjustment to Net  
3 Operating Income in the report. Based upon the TPSC audit conducted in  
4 accordance with T.C.A. § 65-5-209 (j), United's earnings were found to be less  
5 than the Company's current authorized fair rate of return existing at the time of  
6 the Company's application for price regulation. Therefore, United's rates were  
7 determined to be affordable upon entry into price regulation. Consumer rates for  
8 telecommunications services in United's Northeast Tennessee serving area  
9 **continue to this day** to reflect the benefit of the Yellow Page **imputed earnings**  
10 that were included in the determination of the initial rates for United's entry into  
11 price regulation. By utilizing these initial rates and complying with the  
12 requirements of T.C.A. § 65-5-209 (e), United has maintained affordable rates for  
13 its basic and non-basic telecommunications services. Contrary to the insinuation  
14 contained in Mr. Buckner's testimony, **at no time** has United sought to eliminate  
15 the effects of the original Yellow Page **earnings imputation** from its rates and to  
16 recover the imputation amount from its customers through rate increases.

17  
18 The **contract revenues** received by United from directory publishing companies  
19 were separately included as Miscellaneous Revenues in the audited March, 1995  
20 TPSC 3.01 report for entry into price regulation. Additionally, these **contract**  
21 **revenues** have been **included** in United's 1996, 1997 and 1998 Annual Price  
22 Regulation Filings. The current contracts for services rendered to directory  
23 publishing companies include prices for billing and collection functions

1 performed on behalf of the directory publisher, as well as rates for the sale of  
2 directory listings to the publisher.

3  
4 **Q. Mr. Buckner accuses United of refusing to identify Yellow Page revenue that**  
5 **would have been imputed had the procedures that were in place in 1995 been**  
6 **followed today. Please comment.**

7  
8 **A.** I believe some clarification is in order. First of all, the Yellow Page imputation  
9 that was made in 1995, as addressed previously in my testimony, was  
10 appropriately included as an earnings amount in Adjustments to Net Operating  
11 Income, **not revenues**, a fact that Mr. Buckner should be well aware of. In  
12 accordance with T.C.A. § 65-5-209, imputed earnings from Yellow Page  
13 operations is addressed in the TPSC 3.01 report for entry into price regulation.  
14 The initial earnings review directed by state law was resolved when the TPSC  
15 determined that the audit of the March, 1995 TPSC 3.01 report resulted in  
16 affordable rates for United's customers. Since this issue was previously resolved  
17 by the TPSC in accordance with state law and is not an issue in this docket,  
18 United objected to providing the requested information as a matter of relevancy.

19  
20 I would also note that Mr. Buckner fails to indicate in his direct testimony or his  
21 hypothetical examples how, under TCA § 65-5-209 and the methodology  
22 approved by the TRA, the Yellow Page imputed earnings would be included in  
23 the calculations for an Annual Price Regulation Filing.

1

2     **Q.     In Mr. Buckner's testimony on pages 5 and 6, and Attachments B and C, he**  
3     **sets forth arguments that the price regulation filings must undergo a "two-**  
4     **step" compliance test. Do you agree with this interpretation by Mr.**  
5     **Buckner?**

6

7     **A.     No, I do not – and quite frankly I'm surprised by Mr. Buckner's statements. The**  
8     **Consumer Advocate Division is well aware that the list of issues set forth in the**  
9     **January 27, 1997 Initial Order of the Hearing Officer in Docket 96-01423**  
10    **(Rebuttal Exhibit CSP-A) clearly states:**

11

12

13

**Issue 1. Methodology: How is the maximum annual adjustment,**  
**permitted under T.C.A. § 65-5-209 (e), calculated?**

14

15

**This same Initial Order includes a section, Resolution of Issue 1. In that section,**  
**the Order language included the following statement:**

16

17

18

19

20

21

22

**Dr. Klein stated that United's proposed methodology was acceptable**  
**except that the Parties agreed to conform the calculation methodology**  
**for the Service Price Index ("SPI") to the SPI calculation**  
**methodology contained in the final draft of the local competition rules**  
**considered by the Tennessee Public Service Commission (the**  
**"TPSC") in December, 1995.**

23

24

25

26

**While Mr. Vincent Williams of the Consumer Advocate Division initially agreed**  
**to this statement, the CAD later argued before the Hearing Officer (then**  
**Chairman Lynn Greer) that he did not agree with the statement by Dr. Klein. The**  
**Hearing Officer allowed Mr. Williams the opportunity to retract his agreement in**

1 writing. The CAD made no filing to that effect, and thus his inaction means he is  
2 bound by his agreement.

3  
4 In working with the parties to Docket 96-01423 on the language for the  
5 Stipulation Methodology, Mr. Williams edited the stipulation language as  
6 indicated below with the bold and underlined words being Mr. Williams edits.

7 The Parties have agreed to only those aspects of the methodology  
8 expressly stated herein to be used by United in determining its maximum  
9 price adjustments under T.C.A. Section 65-5-209 (e) (the "Act"), and  
10 wish to set forth this agreement in writing.  
11

12 (A copy of the fax received from Mr. Williams indicating these edits is attached  
13 as Rebuttal Exhibit CSP-B and the Stipulation is included with my direct  
14 testimony as Exhibit CSP-1.)  
15

16 It is critical to note in my Rebuttal Exhibit CSP-B that Mr. Williams did not  
17 "mark-up" the Stipulation of Methodology to outline the "two-step" calculations  
18 Mr. Buckner utilizes in Attachments B and C to his direct testimony. Thus, Mr.  
19 Buckner's interpretation is clearly unfounded as shown above and by the actions  
20 of Mr. Williams, in particular.  
21

22 **Q. Does the Methodology, approved and re-affirmed by the TRA for calculating**  
23 **price adjustments in accordance with T.C.A. § 65-5-209, require that rates be**  
24 **increased to the maximum each year?**  
25



1     **A.**     No. Mr. Buckner is incorrect in his statement on Page 4, lines 22-24 of his  
2             testimony that the Methodology "**assum[ed]**" that rates are increased the maximum  
3             allowed each year in accordance with Tenn. Code Ann. 65-5-209" (emphasis  
4             added). Mr. Buckner gives no basis for his assumption and there is no language  
5             in the Methodology or T.C.A. § 65-5-209 that supports this position. In fact, Mr.  
6             Buckner's position is contrary to the public interest.

7  
8     **Q.**     **Mr. Parrott, please explain how Mr. Buckner's position is not in the public**  
9             **interest.**

10  
11    **A.**     Consistent with Mr. Buckner's position United (or any other price regulated  
12             company) would be incented to immediately increase rates each and every time an  
13             opportunity arose. The descriptive phrase that comes to mind here is "Use It or  
14             Lose It".

15  
16             A prime example of United's reliance on the Methodology not assuming or  
17             requiring maximum allowed increases each year is United's July 16, 1998 letter to  
18             the TRA in Docket 97-01438 (Rebuttal Exhibit CSP-C). This letter includes the  
19             following statement:

20                     In view of the filing in September of United's 1998 Annual filing and the  
21                     brief period of time remaining in which new 1997 rate proposals could be  
22                     submitted, considered and if approved be in effect, United will not be  
23                     submitting any substitute rate proposals.

24  
25             Under Mr. Buckner's proposal, by choosing in the 1997 filing to postpone rate  
26             proposals until the 1998 filing, United would lose forever the opportunity it had in

1           1997 under the Methodology to increase rates for its non-basic services.

2           According to Mr. Buckner's proposal, United should never be allowed to delay  
3           this opportunity until a subsequent filing. Consequently, customers rates could be  
4           increased **only** when the opportunity **initially** presents itself.

5  
6           Additionally, United would be severely harmed if the position now espoused by  
7           the CAD is adopted. United had in good faith relied upon the fact that it  
8           calculated the adjustments in a manner which was in accordance with the  
9           Methodology and reflected cumulative increases. The CAD silently acquiesced in  
10          such reliance. The CAD's departure from acceptance and movement to the "two-  
11          step" test in calculating the adjustment is not only contrary to the Methodology,  
12          but unfairly imposes financial harm on the Company.

13  
14          I would emphasize that in the public interest, proposed rate changes for price  
15          regulated companies are implemented on a **prospective basis only - not**  
16          **retroactively**. Therefore, a price regulated company which postpones the  
17          opportunity to increase rates until a subsequent year chooses to **forego revenues**  
18          they would have received in prior months or years.

19  
20       **Q.   Does Mr. Buckner's direct testimony provide any evidence that United has**  
21       **not accurately calculated or applied the Methodology in its 1998 filing ?**

1     **A.**     No, it does not. While Mr. Buckner has utilized data contained in United's 1998  
2             filing in preparing his Attachment B to his direct testimony, this "first step"  
3             compliance test is not contained within the Methodology approved by the TRA  
4             and found to be compliant with T.C.A. § 65-5-209 (e). Further, in preparing  
5             Attachment C to his direct testimony in an attempt to show how the calculations  
6             are performed under the Methodology (calculations that are portrayed as a  
7             "second step" compliance test), Mr. Buckner chose to use hypothetical  
8             assumptions rather than actual data contained in United's 1998 filing. Mr.  
9             Buckner has done nothing to prove that United's 1998 filing is not compliant with  
10            the Methodology.

11  
12    **Q.**     **Please summarize your rebuttal testimony.**

13  
14    **A.**     The Consumer Advocate Division witness Mr. Buckner has included  
15             assumptions, allegations and calculations in his direct testimony that are not  
16             supported by the Methodology approved by the TRA for determining the  
17             maximum annual price adjustment allowed under T.C.A. § 65-5-209. Although  
18             Mr. Buckner briefly discusses the issue of Yellow Page imputation in his direct  
19             testimony, he fails to: 1) recognize that United's rates continue to reflect the  
20             benefit of the \$2.9 million in Yellow Page imputed earnings that was part of the  
21             determination of the Company's initial rates for price regulation, and 2) show  
22             how the imputed earnings from Yellow Page operations would be treated in  
23             accordance with the calculation Methodology approved by the TRA. The "two-

1 step" process utilized by Mr. Buckner for evaluating United's 1998 filing for  
2 compliance with T.C.A. § 65-5-209 **is not supported** by the Methodology  
3 approved by the TRA and stipulated to by the parties (which included the CAD)  
4 to Docket No. 96-01423. In fact, neither the Methodology nor the suggested  
5 "mark-up" revisions provided by Mr. Williams of the CAD during the negotiation  
6 of the Methodology make any reference to the "Use It or Lose It" position taken  
7 by Mr. Buckner.

8  
9 Despite the efforts of Mr. Buckner to confuse and complicate what should be a  
10 simple, straight-forward evaluation process, the fact remains that United's 1998  
11 Annual Price Regulation Filing accurately calculates and applies the Methodology  
12 approved by the TRA to determine the maximum annual price adjustment for  
13 United under TCA § 65-5-209 (e).

14  
15 **Q. Does this conclude your testimony?**

16  
17 **A. Yes, it does.**

BEFORE THE TENNESSEE REGULATORY AUTHORITY

JANUARY 27, 1997

Nashville, Tennessee

IN RE: UNITED TELEPHONE-SOUTHEAST, INC.  
TARIFF NO. 96-201 TO REFLECT ANNUAL PRICE CAP ADJUSTMENT  
DOCKET NO. 96-01423

INITIAL ORDER OF THE HEARING OFFICER

Prehearing conferences were held in the above-captioned matter on Tuesday, December 10, 1996, Tuesday, December 17, 1996 and Tuesday, January 14, 1997, in Nashville, Tennessee before Chairman Lynn Greer acting as Hearing Officer pursuant to the Tennessee Regulatory Authority's (the "Authority") Order and Notice dated December 5, 1996. The following appearances were entered:

APPEARANCES

JAMES B. WRIGHT, Senior Attorney, United Telephone-Southeast, Inc. ("United"), 14111 Capital Boulevard, Wake Forest, North Carolina 27587-5900, appearing on behalf of United.

L. VINCENT WILLIAMS, Consumer Advocate, 426 Fifth Avenue N., 2nd Floor, Cordell Hull Building, Nashville, Tennessee 37243-0500, appearing on behalf of the Consumer Advocate Division, Office of the Attorney General.

GUY M. HICKS, General Counsel-Tennessee, BellSouth Telecommunications, Inc.. ("BellSouth"), 333 Commerce Street, Suite 2101, Nashville, Tennessee 37201-3300, appearing on behalf of BellSouth.

RICHARD M. TETTELBAUN, Associate General Counsel, Citizens Telecommunications Company of Tennessee, L.L.C., ("Citizens"), Suite 500, 1400 16th Street, N.W., Washington, DC 20036, participating by telephone, appearing on behalf of Citizens.

JOHN KNOX WALKUP, Gullett, Sanford, Robinson & Martin, 230 Fourth Avenue North, 3rd Floor, Nashville, TN 37219-8888, appearing on behalf of AT&T Communications of the South Central States, Inc. ("AT&T"), his first appearance being December 17, 1996.

Also at the meetings from the Authority's Staff were Dianne Neal, Esquire, and Dr. Chris Klein.

The purpose of the hearings was to consider scheduling, simplification of issues, and such other matters properly brought before the Hearing Officer in accordance with T.C.A. § 4-5-306.

#### **I. PROTECTIVE ORDER**

The first matter was United's Motion for a Protective Order. The Parties agreed that a Protective Order, basically identical to the Order issued in the Avoided Cost Proceeding (Docket No. 96-01331), was appropriate for use in this proceeding. Counsel for United prepared and submitted a proposed Protective Order to the Parties for approval as to form and to the Authority for approval and entry. The Protective Order was approved by the Authority on December 17, 1996.

#### **II. BELL SOUTH INTERVENTION**

In discussing BellSouth's Petition to Intervene, United stated that it had no objection to granting the Petition based on the following agreement it had reached with BellSouth. United understood BellSouth's principal interest in this proceeding concerned the policy and legal issues which may be raised regarding the annual adjustment under T.C.A. § 65-5-209(e), rather than the

need to review any proprietary data United may provide in support of its tariffs. Consequently, BellSouth agreed that United need only provide copies of all of United's non-proprietary responses to Discovery requests, and that United need not provide its responses to Discovery requests which contained proprietary information. At United's request, Counsel for Citizens agreed, for the same reasons, that the same procedure would apply to Citizens. All Parties agreed to this procedure and the Hearing Officer stated that BellSouth's Petition for Intervention was granted with that understanding.

### III. AT&T INTERVENTION

On December 17, 1996, AT&T's Petition to Intervene was taken up by the Hearing Officer. There was no objection to this petition by any Party. The Hearing Officer, pursuant to T.C.A. § 4-5-310, found that the Petition to Intervene should be granted.

### IV. ISSUES

Each of the Parties stated what they believed were the key issues to be decided. This resulted in the identification of the following issues:

- Issue 1. Methodology: How is the maximum annual adjustment, permitted under T.C.A. § 65-5-209(e), calculated?
- Issue 2. What is the Authority's jurisdiction regarding amendment of the terms and conditions of basic local service?
- Issue 3. Is Directory Assistance ("D.A.") a non-basic service for which rates may be increased by a company under price regulation, or is it a basic service which may not be increased for four (4) years by reason of T.C.A. § 65-5-209(f)?
- Issue 4. Access Services Tariff.

Issue 5.        DA Stimulation/Destimulation. When a rate is proposed for a service previously provided at no charge, is it appropriate to consider the destimulation effect the separate rate may have on demand and revenues?

V.     **RESOLUTION OF ISSUE 1**

In discussion of Issue 1, Methodology, the Parties expressed a willingness to meet informally to determine if agreement could be reached, with the time and place to be arranged between the Parties following the December 10, 1996 prehearing conference. At the Consumer Advocate's request, it was agreed Dr. Klein, of the Authority's Staff, would act in the role of consultant in an effort to facilitate possible resolution of this issue. The Hearing Officer stated another prehearing conference would be held Tuesday, December 17, 1996, for the purpose of receiving a report from the Parties on the progress of resolving the methodology issue.

At the December 17, 1996 prehearing conference, Dr. Klein reported that the Parties had met and that all the Parties had agreed in concept to a price index methodology. Dr. Klein stated that United's proposed methodology was acceptable except that the Parties agreed to conform the calculation methodology for the Service Price Index ("SPI") to the SPI calculation methodology contained in the final draft of the local competition rules considered by the Tennessee Public Service Commission (the "TPSC") in December, 1995. This modification to the SPI calculation methodology required a related change in the new service language.

The Hearing Officer polled each Party as to their acceptance of Dr. Klein's statements. All Parties agreed with the methodology proposed upon the condition that the methodology be, as it has been represented to be, without any material difference from the TPSC Staff's December,



1995 recommendation. United was asked to revise its proposal to incorporate the above changes. United agreed to resubmit the methodology on Friday, December 20, 1996.

On January 14, 1997, all Parties convened for the purpose of hearing the Objection filed by the Consumer Advocate in response to the proposed Order submitted by United. The Consumer Advocate objected to the language in United's proposed Order, arguing that the language inaccurately reflected that an agreement had been reached regarding Issue 1. Methodology, when, in fact, the Consumer Advocate had not agreed. The Hearing Officer permitted the Consumer Advocate to explain his objection in light of the December 17, 1996, transcript, which reflected that the Consumer Advocate told the Hearing Officer and the other parties that he agreed. At the conclusion of the Consumer Advocate's arguments, the Hearing Officer found that, based on the December 17, 1996 transcript and the express understanding of all other counsel in this proceeding, there was an agreement and the Consumer Advocate had, in fact, agreed. The Hearing Officer further found that if the Consumer Advocate had since reconsidered his position, he would be required to file a petition asking permission to withdraw from the agreement no later than Wednesday, January 15, 1997, by 4:00 p.m.

As a result of an informal meeting among the Parties following the prehearing conference, the Parties jointly agreed that a new Procedural Schedule would be appropriate.

## VI. SCHEDULE

The Parties agreed to the following schedule:

January 17, 1997: Draft of written stipulation regarding methodology circulated  
among the Parties and Dr. Klein.

January 23, 1997: Final written stipulation as to all matters agreed upon, signed by all Parties for filing of record.

January 28, 1997: United files revised tariffs in accordance with stipulated methodology.

February 4, 1997: All Discovery served.

February 11, 1997: All responses to Discovery completed.

February 14, 1997: Direct Testimony filed by noon.

February 21, 1997: Rebuttal Testimony filed by noon.

February 26, 1997: Surrebuttal Testimony filed by noon.

March 11, 1997: Hearing (Subject to Change).

United recognized its proposed tariffs were currently suspended until March 5, 1997, and United consented to any further suspension as may be necessary for the Authority to accommodate this new schedule.

## VII. PROCEDURES

The Parties agreed that service of all documents may be by facsimile. Service is to occur by noon, central standard time, on the due date, except that service of Discovery requests can occur by 4:30 p.m.

### IT IS THEREFORE ORDERED:

1. That the Protective Order submitted be, and hereby, is approved.
2. That BellSouth's Petition to Intervene be, and hereby is, granted.
3. That AT&T's Petition to Intervene be, and hereby is, granted.

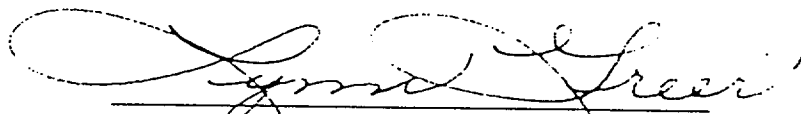
4. The Parties are hereby directed to meet for the purpose of resolving the issue of how the maximum annual adjustment, permitted under T.C.A. § 65-5-209(c), is calculated, that Dr. Klein, Division Chief, Utility Rate Division, be and hereby is, directed to attend such meeting, act as a consultant, and report back to the Hearing Officer on December 17, 1996.

5. That the proposed methodology for calculating the maximum annual adjustment, as described above, be and hereby is, approved.

6. That the schedule proposed above in Paragraph VI be, and hereby is, approved.

7. That servicing of all documents may be by facsimile and service must occur by 12:00 noon, CST, except the service of Discovery Requests can occur by 4:30 p.m., CST.

8. That any party aggrieved with the Hearing Officer's decision in this matter may file a Petition for Appeal with the Authority within ten (10) days after entry of the Initial Order.

  
Chairman, Appearing as Hearing Officer

#9334

OFFICE OF THE ATTORNEY GENERAL  
CONSUMER ADVOCATE DIVISION

Cordell Hull Building  
426, 5th Avenue North  
NASHVILLE, TN 37243-0500  
PHONE: (615) 741-8700  
FAX: (615) 741-8724

\*\*\*\*\* FACSIMILE TRANSMISSION \*\*\*\*\*

Transmitting <sup>14</sup>~~3~~ page(s), including coversheet.

RUSH - HAND DELIVER TO RECIPIENT \_\_\_\_ (YES)

DATE: 1/22/97

TO:

Tim Wright

FAX #: 919 554-7913 PHONE #: \_\_\_\_\_

FROM: Vince Williams

COMMENTS: \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

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BEFORE THE TENNESSEE REGULATORY AUTHORITY  
NASHVILLE, TENNESSEE

IN RE: UNITED TELEPHONE-SOUTHEAST, INC. TARIFF NO. 96-201  
TO REFLECT ANNUAL PRICE CAP ADJUSTMENT

DOCKET NO. 96-01423

STIPULATION

This Stipulation is made this 23rd day of January, 1997  
by and among United Telephone-Southeast, Inc. ("United"),  
BellSouth Telecommunications, Inc., Citizens  
Telecommunications Company of Tennessee, L.L.C., Office of  
the Attorney General, Consumer Advocate Division, and AT&T  
of the South Central States, Inc. (herein called the  
"Parties"). *Other persons or entities granted intervention in  
this case apply to have their interests be directly shown by the  
RECITALS as will be directly affected by the*

Each of the Parties is a party of record in Docket No.  
96-01423 (the "Case") which is pending before the Tennessee  
Regulatory Authority ("Authority"), and together the Parties  
constitute *the real parties in interest in the case* all the parties of record in the case. *Proving and*

United is operating under a price regulation plan  
approved by the Tennessee Public Service Commission  
effective October 15, 1995. *only those aspects of the* *expressly stated herein*

The Parties have agreed to the methodology to be used  
in determining the maximum price adjustment for companies  
regulated under T.C.A. Section 65-5-209(e) (the "Act"), and  
wish to set forth this agreement in writing:

NOW THEREFORE the Parties set forth their Agreement as follows:

1. The Parties acknowledge that this Stipulation is subject to and conditioned on approval by the Authority or its designee.

2. The <sup>stipulated aspects of the</sup> methodology to be applied under the Act is set forth on the attached nine page document entitled Price Cap Annual Filing Methodology dated January <sup>23</sup> 1997.

3. This Stipulation applies to methodology only. Each Party specifically reserves the right to contest any matter <sup>or method</sup> ~~other~~ pertaining to the tariff(s) which are or may be filed in connection with any price adjustments proposed in this proceeding. <sup>which then is not an express agreement</sup>

including but not limited to those.

IN WITNESS WHEREOF, the parties have signed this Stipulation effective January 23, 1997.

UNITED TELEPHONE-SOUTHEAST, INC.

James B. Wright  
14111 Capital Boulevard  
Wake Forest, NC 27587-5900

DATED: \_\_\_\_\_

OFFICE OF THE ATTORNEY GENERAL  
CONSUMER ADVOCATE DIVISION

L. Vincent Williams  
426 Fifth Avenue, North, 2nd Floor  
Nashville, TN 37243-0500

DATED: \_\_\_\_\_

A 44

CITIZENS TELECOMMUNICATIONS COMPANY  
OF TENNESSEE, L.L.C.

\_\_\_\_\_  
Richard M. Tettelbaum  
Suite 500, 1400 16th Street, N.W.  
Washington, DC 20036

DATED: \_\_\_\_\_

BELLSOUTH TELECOMMUNICATIONS, INC.

\_\_\_\_\_  
Guy M. Hicks  
333 Commerce St., Suite 2101  
Nashville, TN 37201-3300

DATED: \_\_\_\_\_

GULLET, SANFORD, ROBINSON & MARTIN

\_\_\_\_\_  
John Knox Walkup  
Val Sanford  
230 Fourth Avenue, North, 3rd Floor  
P.O. Box 198888  
Nashville, TN 37219-8888  
FAX 615-256-63392  
Counsel for AT&T of the South  
Central States, Inc.

DATED: \_\_\_\_\_

**Price Cap  
Annual Filing  
Methodology**

**January 17, 1997**

**United Telephone-Southeast, Inc.  
Tennessee**



## Table of Contents

- I. Purpose
- II. Scope
- III. Definitions
- IV. Methodology
- V. Attachments

## I Purpose

On October 15, 1995, United Telephone-Southeast entered Price Regulation per Chapter 408 of the Public Acts of 1995 (the Act) for the state of Tennessee. In response to the ruling, the attached reflects the Price Cap methodology to be used in calculating indexes and any price adjustments to ensure compliance with the Act. Other filings may be made throughout the year in response to customer demand, changing market conditions, or to use any residual opportunity for price changes not incorporated into this filing.

supplementary aspects to the stipulation

stipulated aspects of

## II Scope

As defined by the Act, Basic and Non-Basic Services category revenues and pricing are governed by the Act. A comprehensive list of Basic and Non-Basic services is included in Attachment A.

What are the charges for the services listed in Attachment A?

## III Definitions

Below are definitions of terms used throughout this document. A number of the definitions have been presented verbatim from TCA sections, as noted, to support a comprehensive explanation of the calculations.

A. Basic Local Exchange Telephone Services (Basic Services) - are telecommunications services which are comprised of an access line, dial tone, touch-tone and usage provided to the premises for the provision of two way switched voice or data transmission over voice grade facilities of residential customers or business customers within a local calling area, Lifeline, Link-Up Tennessee, 911 Emergency Services and educational discounts existing on the effective date of the price regulation act or other services required by state or federal statute. These services shall, at a minimum, be provided at the same level of quality as is being provided on the effective date of the price regulation act. Rates for these services shall include both recurring and nonrecurring charges. (Section 65-5-208)

B. Non-Basic Services - are telecommunications services which are not defined as Basic Local Exchange Telephone Services and are not exempted under section 65-5-208 (b). Rates for these services shall include both recurring and nonrecurring charges. (Section 65-5-208)

C. Price Regulation Index (PRI) - establishes a ceiling on price changes, in the aggregate, for the Basic and Non-Basic Services categories. The PRI, as of the effective date of Price Regulation, is one hundred (100). The PRI for subsequent years shall be calculated as described in IV.G. below.

D. Service Price Index (SPI) - indicates the cumulative annual percentage change in actual prices, by service category (Basic and Non-Basic), since the effective date of Price Regulation, or since the last resetting of the Indexes by the Authority under the ruling. The

What are the charges for the services listed in Attachment A?

What are the charges for the services listed in Attachment A?

Portions of Section F

F.

Service Connections Charges/Nonrecurring Charges (NRC) - revenues are determined from the number of revenue-producing units per item multiplied by the per unit revenue for each item. To the extent that detailed service volumes can not be specifically linked to basic or specifically linked to a nonbasic service, the company will propose a method of allocation and provide documentation supporting the allocation to the Tennessee Regulatory Authority and parties directly affected by the allocation decision. Unless the directly affected parties expressly stipulate to the allocation, a contested case proceeding will be held to determine the appropriate allocation method. For United's initial filing the parties stipulate that the Service Connection and NRC charges are properly allocated between Basic and Non-Basic Services based upon the percentage of revenues where charges are applicable for each category. ~~are not available, appropriate supporting calculations will be provided with each annual filing subject to review by the Tennessee Regulatory Authority and interested parties.~~

Message Tell, Switched Access, Opportunity 800, WATS and revenues derived from minutes of use in each rate band, multiplied are to be by the per minute rate for the band.

Billing and Collection, Public and Semi-Public Phone Revenue, Cellular Interconnection, Directory Compensation, Miscellaneous - revenues are determined from the number of revenue-producing units per item multiplied by the per unit revenue for each item. To the extent that detailed service volumes are not available for any such service, the Company will provide the Tennessee Regulatory Authority and interested parties a complete explanation of why such volumes can not be determined from the Company's records and will propose an alternative method of determining the revenue along with supporting calculation and documentation of the amount of such revenue to the parties directly affected by allocation decision. Unless the directly affected parties expressly stipulate to the allocation, a contested case proceeding will be held to determine the appropriate allocation method. ~~the appropriate supporting calculation will be provided with each annual filing subject to review by the Tennessee Regulatory Authority and interested parties.~~

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SPIs for the Basic and Non-Basic categories are individually calculated and compared to the PRI. The Service Price Index shall be calculated as described in IV.H. below.

E. Gross Domestic Product-Price Index (GDP-PI) - is the final estimate of the Chain-Weighted Gross Domestic Product-Price Index as prepared by the U.S. Department of Commerce and published in the Survey of Current Business, or its successor. (Section 65-4-101 (h)).

F. Revenues per Category - The revenues included in each category are determined as listed below:

Local (Basic and Non-Basic) - revenues are determined from the number of revenue-producing units per item multiplied by the per unit revenue for each item.

Service Connection Charges/Nonrecurring Charges (NRC) - revenues are determined from the number of revenue-producing units per item multiplied by the per unit revenue for each item. To the extent that detailed service volumes are not available, appropriate supporting calculations will be provided with each annual filing subject to review by the Tennessee Regulatory Authority and interested parties.

Message Toll, Switched Access, Opportunity 800, WATS - revenues were derived from minutes of use, multiplied by the per minute rate for the service.

Switched Access - Dedicated, Special Access - revenues were derived from the number of units per item multiplied by the per unit revenue for each item.

Billing and Collection, Public and Semi-Public Phone Revenue, Cellular Interconnection, Directory Compensation, Miscellaneous - revenues are determined from the number of revenue-producing units per item multiplied by the per unit revenue for each item. To the extent that detailed service volumes are not available, appropriate supporting calculations will be provided with each annual filing subject to review by the Tennessee Regulatory Authority and interested parties.

G. Revenue Producing Units - The units included in the service volumes are revenue-producing units only. Company official units are excluded from the service volumes.

#### IV. Methodology

A. Increase in Basic Local Exchange - cannot occur until October 15, 1999.

B. Call Waiting - Rates for call waiting have been set at \$3.00 for residence customers and \$3.90 for business customers until October 15, 1999 per the Act.

*Subsequent evaluations for USSE will continue to use first quarter rates*

C. Interconnection Services - Rates for interconnection services are capped at the lesser of one-half (1/2) the percentage change in the previous year's inflation rate or the inflation rate for the previous year minus two percentage points (TCA 65-5-208). The inflation rate is defined as the percentage change in the final estimate of the Chain-Weighted GDP-PI from the most recent quarter when a final estimate is available. For this filing, the 1996 first quarter rate is used. Interconnection includes the ability for telecommunications carriers, including Competitive Local Exchange Companies, Cellular service providers, Wireless service providers, etc., to interconnect directly or indirectly with the facilities and equipment of other telecommunications carriers and obtain access to network elements on a non-discriminatory basis dependent on the cost of providing the network element (per the Telecommunications Act of 1996, Section 251, Interconnection).

D. New Services - New tariffed services will be included in the SPI for the appropriate category in the first annual filing after the service has been available for six months. The price in effect for the new service when it is added to the index calculations, divided by the value of the Service Price Index for the previous anniversary date, shall be the initial index price for the new service.

E. Revenue Neutral Filings - Revenue neutral filings are defined as filings that result in no change in net revenues within the same category. Revenue neutral filings will not include SPI calculations when services within the same category are affected.

F. Promotional Pricing - The permanent approved rates shall be used in calculating revenues for services where rates are discounted for promotional purposes during the year.

G. Calculation of PRI - Per the Act, the "maximum annual adjustment...is capped at the lesser of one-half (1/2) the percentage change in inflation for the United States using the Gross Domestic Product-Price Index (GDP-PI) from the preceding year as the measure of inflation, or the GDP-PI from the preceding year minus two (2) percentage points" (TCA 65-5-208). The Price Regulation Index is calculated annually as a) 100 plus b) the lesser of one-half (1/2) the percentage change in the previous year's inflation rate or the inflation rate for the previous year minus two percentage points c) divided by 100 and d) multiplied by the then current value of the PRI for the company. The inflation rate is defined as the percentage change in the final estimate of the Chain-Weighted GDP-PI from the most recent quarter when a final estimate is available. Attachment B reflects the calculation. Future years will use appropriately updated inflation rates.

H. Calculation of SPI for Basic and Non-Basic Services - The Service Price Index is calculated for both Basic and Non-Basic categories as 1) the Proposed revenues for each category 2) divided by the annualized Base revenues for each category 3) multiplied by 100. The Proposed revenues for each annual filing shall be the revenues for each category resulting from pricing out the annualized service volumes for the latest month available at the company's current prices for each service plus the net effect of any proposed price changes. The service volumes for the latest month available are for the

month of June for the year of the annual filing. The annualized Base revenues for each annual filing shall be the revenues resulting from pricing out the annualized service volumes for the latest month available at the company's initial index prices for each service. The initial index prices are the service prices in effect on the effective date of price regulation, or as reset by the Tennessee Regulatory Authority under TCA 65-5-207. The SPI will be recalculated with each annual filing and as necessary for interim filings. The service volumes will remain constant for interim filings and will be adjusted with each annual filing.

*Frank 6/1/96*  
*[Signature]*

**V. Attachments**

A. List of Basic and Non-Basic Services as of 6/30/96

B. 1996 PRI Calculation

### List of Basic and Non-Basic Services as of 6/30/96

other services regulated by  
state and Federal Statute

United Telephone-Southeast, Inc.

### 1996 PRI Calculation

Input:

Inflation Rate 2.4  
First Qtr 1995 vs. First Qtr 1996

Calculation:

**Step 1: >**

Base Rate of 100 100

**Step 2:**

Plus: The lesser of:

1/2 Inflation Rate 1.2

or

Inflation Rate - 2% 0.4

= 100.4

**Step 3:**

Divided by 100 1.004

**Step 4:**

Multiplied by the current PRI (100) 100.4



26 • July 1996

## SURVEY OF CURRENT BUSINESS

## 8. Supplementary Tables

Table B.1.—Percent Change From Preceding Period in Selected Series  
(Percent)

	1994	1995	Seasonally adjusted at annual rates						1994	1995	Seasonally adjusted at annual rates			
			1995								1995			
			IV	I	II	III	IV	I			1994	1995	1996	1997
<b>Gross domestic product:</b>														
Current dollars	4.8	4.5	6.4	3.9	2.8	5.8	2.3	4.3						
Chain-type quantity index	3.5	2.0	3.3	.0	.5	3.8	.5	2.2						
Chain-type price index	7.3	2.4	2.9	3.3	2.5	2.2	2.2	2.1						
Implicit price deflator	2.3	2.4	2.2	3.2	2.3	2.2	1.8	2.1						
<b>Personal consumption expenditures:</b>														
Current dollars	4.5	4.8	5.3	3.4	8.1	4.2	7.4	6.8						
Chain-type quantity index	3.9	2.1	3.3	.8	3.4	2.8	1.2	3.6						
Chain-type price index	2.4	2.4	2.0	2.7	2.8	1.5	1.2	2.4						
Implicit price deflator	2.4	2.3	2.0	2.8	2.7	1.4	1.4	2.1						
<b>Durable goods:</b>														
Current dollars	8.5	4.4	12.4	-4.2	7.6	8.1	-2.0	6.4						
Chain-type quantity index	7.2	3.4	12.8	-4.7	7.0	9.3	.3	6.5						
Chain-type price index	2.1	1.0	-1.1	3.1	.8	.7	-1.2	1.2						
Implicit price deflator	2.1	1.0	-2.7	2.7	.5	-1.2	-2.3	-1.1						
<b>Non-durable goods:</b>														
Current dollars	4.4	3.9	4.4	3.8	4.2	1.2	.0	3.2						
Chain-type quantity index	3.1	2.3	3.2	2.4	1.9	.3	-2.3	3.4						
Chain-type price index	1.3	1.7	1.2	1.0	2.6	.7	1.5	2.8						
Implicit price deflator	1.2	1.8	1.1	1.1	2.3	.3	1.3	3.8						
<b>Services:</b>														
Current dollars	6.2	5.3	4.3	5.6	5.0	4.8	4.3							
Chain-type quantity index	2.1	2.3	1.4	2.1	3.4	2.9	2.3							
Chain-type price index	3.0	3.1	2.9	3.6	3.4	2.4	1.9							
Implicit price deflator	3.0	3.0	2.5	3.4	2.5	2.4	1.7							
<b>Gross private domestic investment:</b>														
Current dollars	18.6	5.0	6.8	8.8	-7.9	1.7	-4.3	1.9						
Chain-type quantity index	14.3	3.2	5.0	7.3	-4.7	1.4	-3.2	3.0						
Chain-type price index	1.9	1.9	1.4	1.0	3.0	2.3	.4	.4						
Implicit price deflator	1.8	1.7	1.6	1.2	2.1	2.1	-3.1	-1.0						
<b>Fixed investment:</b>														
Current dollars	12.3	7.7	9.8	9.4	.3	6.2	3.7	8.7						
Chain-type quantity index	10.1	6.1	6.4	8.8	-1.4	8.5	4.0	11.3						
Chain-type price index	1.9	1.6	1.2	.3	2.7	2.3	.3	.3						
Implicit price deflator	1.8	1.5	1.2	.7	2.4	1.4	-3.1	-1.2						
<b>Non-durable:</b>														
Current dollars	11.4	10.7	12.0	15.3	4.1	6.8	1.5	10.7						
Chain-type quantity index	8.5	9.8	12.2	15.0	3.4	5.2	3.1	12.4						
Chain-type price index	1.4	1.2	.1	.1	2.8	2.0	.3	.3						
Implicit price deflator	1.4	.8	-2.2	.2	2.5	1.3	-1.3	-1.3						
<b>Structures:</b>														
Current dollars	4.8	10.8	18.5	12.8	5.5	10.3	2.8	9.8						
Chain-type quantity index	1.6	7.2	13.0	8.8	3.4	6.3	.9	7.8						
Chain-type price index	3.3	3.3	4.3	2.4	2.5	3.8	1.8	3.3						
Implicit price deflator	3.3	3.5	4.3	2.6	3.1	3.2	2.0	1.8						
<b>Producers' durable equipment:</b>														
Current dollars	14.1	10.8	8.7	18.8	8.0	5.3	1.4	11.3						
Chain-type quantity index	13.2	10.3	11.9	17.4	3.7	4.8	4.0	14.1						
Chain-type price index	.7	.4	-1.3	-7.7	2.3	1.4	-.5	-.4						
Implicit price deflator	.7	.1	-2.0	-7.7	2.3	.4	-2.4	-2.4						
<b>Residential:</b>														
Current dollars	14.2	7	4.4	-4.2	-11.1	12.5	4.8	7.3						
Chain-type quantity index	10.8	-2.5	-1.1	-4.3	-13.3	9.7	8.1	7.4						
Chain-type price index	2.1	3.1	4.8	2.2	2.8	2.9	2.2	.1						
Implicit price deflator	2.1	3.1	4.5	2.2	2.5	3.0	2.2	.1						
<b>Exports of goods and services:</b>														
Current dollars	8.4	11.4	17.0	8.1	8.7	8.1	8.8	1.1						
Chain-type quantity index	8.3	8.3	15.3	2.4	4.8	6.0	11.0	2.0						
Chain-type price index	1.1	3.1	2.7	5.8	3.9	.3	-8.8	.4						
Implicit price deflator	1.1	2.9	1.5	5.4	4.9	.1	-9.0	-.8						
<b>Exports of goods:</b>														
Current dollars	10.3	14.2	23.0	10.3	11.8	9.5	10.6	-.6						
Chain-type quantity index	10.1	10.4	21.3	3.7	4.8	9.8	14.1	2.1						
Chain-type price index	.5	3.8	2.9	6.5	5.3	.3	-1.5	-.9						
Implicit price deflator	.5	3.0	1.8	6.3	4.8	.0	-2.1	-2.5						
<b>Exports of services:</b>														
Current dollars	8.3	4.9	2.1	2.7	4.7	4.5	5.4							
Chain-type quantity index	4.0	2.3	1.8	-3.3	4.8	2.8	2.4	1.1						
Chain-type price index	2.1	2.6	.4	3.1	3.2	.7	3.6							
<b>Imports:</b>														
Current dollars	8.8	4.8	-4.8	7.8	10.1	.0	4.8	11.0						
Chain-type quantity index	1.5	2.8	3.9	-4.1	14.8	-1.4	-1.8	-1.3						
Chain-type price index	1.8	2.7	4.0	-4.1	14.1	-1.4	-1.7	-1.2						
Implicit price deflator	2.3	2.4	2.2	3.2	2.3	2.2	1.8	2.1						
<b>Imports of consumer goods:</b>														
Current dollars	1.9	3.3	1.7	3.8	4.2	2.1	4.4	6.1						
Chain-type quantity index	2.0	3.4	3.2	3.1	3.3	2.1	4.4	4.0						
Chain-type price index	2.4	3.3	3.1	3.0	3.3	1.8	4.0	4.4						
Implicit price deflator	2.4	3.0	2.8	3.2	3.1	1.6	3.6	4.0						
<b>Imports of capital goods:</b>														
Current dollars	-1.1	.1	-2.1	-.8	2.1	-.4	-4.8	1.8						
Chain-type quantity index	-2.7	-2.5	-5.8	-4.3	-1.1	-5.9	-2.8	5.8						
Chain-type price index	2.7	3.9	4.2	6.2	2.2	1.7	1.3	1.3						
Implicit price deflator	2.7	3.2	4.0	5.9	3.3	1.8	7.0	2.8						
<b>Imports of intermediate and non-durable goods:</b>														
Current dollars	-1.1	.1	-2.1	-.8	2.1	-.4	-4.8	1.8						
Chain-type quantity index	-2.7	-2.5	-5.8	-4.3	-1.1	-5.9	-2.8	5.8						
Chain-type price index	2.7	3.9	4.2	6.2	2.2	1.7	1.3	1.3						
Implicit price deflator	2.7	3.2	4.0	5.9	3.3	1.8	7.0	2.8						
<b>Imports of services:</b>														
Current dollars	2.3	3.3	3.1	3.0	3.3	1.8	4.0	4.4						
Chain-type quantity index	2.0	3.4	3.2	3.1	3.3	2.1	4.4	4.0						
Chain-type price index	2.4	3.3	3.1	3.0	3.3	1.8	4.0	4.4						
Implicit price deflator	2.4	3.0	2.8	3.2	3.1	1.6	3.6	4.0						
<b>Imports of capital goods:</b>														
Current dollars	-1.1	.1	-2.1	-.8	2.1	-.4	-4.8	1.8						
Chain-type quantity index	-2.7	-2.5	-5.8	-4.3	-1.1	-5.9	-2.8	5.8						
Chain-type price index	2.7	3.9	4.2	6.2	2.2	1.7	1.3	1.3						
Implicit price deflator	2.7	3.2	4.0	5.9	3.3	1.8	7.0	2.8						
<b>Imports of intermediate and non-durable goods:</b>														
Current dollars	-1.1	.1	-2.1	-.8	2.1	-.4	-4.8	1.8						
Chain-type quantity index	-2.7	-2.5	-5.8	-4.3	-1.1	-5.9	-2.8	5.8						
Chain-type price index	2.7	3.9	4.2	6.2	2.2	1.7	1.3	1.3						
Implicit price deflator	2.7	3.2	4.0	5.9	3.3	1.8	7.0	2.8						
<b>Imports of services:</b>														
Current dollars	2.3	3.3	3.1	3.0	3.3	1.8	4.0	4.4						
Chain-type quantity index	2.0	3.4	3.2	3.1	3.3	2.1	4.4	4.0						
Chain-type price index	2.4	3.3	3.1	3.0	3.3	1.8	4.0	4.4						
Implicit price deflator	2.4	3.0	2.8	3.2	3.1	1.6	3.6	4.0						



Charles S. "Steve" Parrott  
Director - Regulatory Affairs

Mid-Atlantic Operations  
14111 Capital Boulevard  
Wake Forest, North Carolina 27587-5900  
Telephone: 919-554-7039  
Fax: 919-554-7595

July 16, 1998

Dr. Austin Lyons  
Tennessee Regulatory Authority  
460 James Robertson Parkway  
Nashville, Tennessee 37243-0505

Re: Docket No. 97-01438, Tariff 97-361

Dear Dr. Lyons:

For United Telephone-Southeast, Inc.'s 1997 Annual Price Regulation Filing, enclosed is the original and thirteen copies of the revised calculation of United's 1997 Service Price Index (SPI) reflecting the Tennessee Regulatory Authority's ruling June 30, 1998 deeming ISDN Basic Rate Interface service as a basic service within the definition in TCA Section 65-5-208 (a). This filing is being made for informational purposes only to reflect the TRA's decision. United specifically reserves its rights to seek reconsideration and review of this determination.

Please also consider this letter as notification of United's withdrawal of its proposed tariff revisions for Operator Services, Custom Calling Features and Transport Interconnection Charge although the Company recognizes that these proposed price adjustments were not opposed by the parties to this proceeding. In view of the filing in September of United's 1998 Annual Filing and the brief period of time remaining in which new 1997 rate proposals could be submitted, considered and if approved be in effect, United will not be submitting any substitute rate proposals.

If you have any questions, please contact me (919-554-7039) or Laura Sykora (919-554-7323).

Sincerely,

A handwritten signature in black ink that reads "C. Steve Parrott". The signature is stylized with a large, looped "C" and a long, horizontal stroke at the end.

C. Steve Parrott

Enclosures

cc: Consumer Advocate Division  
Laura Sykora  
Dennis Wagner

TENNESSEE  
1997 PRICE CAP FILING  
RESTATED

**Service Price Index (SPI) Calculation**  
**Total Revenues by Category for Basic and Non-Basic Services**

		<u>Base Revenues</u>		<u>Proposed Revenues</u>	
	<u>Source of Revenues</u>	<u>June 1995 Rates</u> <u>June 1997 Volumes</u>	<u>June</u> <u>Annualized</u>	<u>June 1997 Rates</u> <u>June 1997 Volumes</u>	<u>June</u> <u>Annualized</u>
<u>Basic Services</u>					
	Local Billing Reports (1)	4,151,569.00	49,818,828.00	4,151,569.00	49,818,828.00
	Plus ISDN BRI	33,212.65	398,551.80	33,212.65	398,551.80
	Basic Service Conn Charges/NRCs	207,538.88	2,490,466.56	169,432.88	2,033,194.56
	Measured Service/OCC	82,522.23	990,266.76	82,522.23	990,266.76
	<b>Total Basic Services</b>	<b>4,474,842.76</b>	<b>53,698,113.12</b>	<b>4,436,736.76</b>	<b>53,240,841.12</b>
<u>Non-Basic Services</u>					
	Local Billing Reports (1 & 2)	1,575,327.00	18,903,924.00	1,644,662.00	19,735,944.00
	Less ISDN BRI	-33,212.65	-398,551.80	-33,212.65	-398,551.80
	Plus DA Rate Changes			70,664.01	847,968.12
	Message Toll Billing Reports	539,112.54	6,469,350.48	539,112.54	6,469,350.48
	Switched Access - Ded Billing Reports	24,867.39	298,408.68	22,196.66	266,359.92
	Switched Access Billing Reports (2)	553,720.88	6,644,650.56	540,582.48	6,486,989.76
	Less CCLC Rate Changes			-60,548.98	-726,587.76
	Special Access Billing Reports	12,017.40	144,208.80	12,930.06	155,160.72
	Opportunity 800 Billing Reports	6,560.66	78,727.92	6,560.66	78,727.92
	WATS Billing Reports	670.40	8,044.80	670.40	8,044.80
	Non-Basic Service Conn Charges/NRCs	24,901.84	298,822.08	24,901.84	298,822.08
	Billing and Collection Billing Reports	44,802.61	537,631.32	44,802.61	537,631.32
	Cellular Interconnections	131,972.59	1,583,671.08	104,045.67	1,248,548.04
	Directory Compensation	320,432.25	3,845,187.00	320,432.25	3,845,187.00
	Miscellaneous General Ledger	411,361.13	4,936,333.56	411,361.13	4,936,333.56
	<b>Total Non-Basic Services</b>	<b>3,612,534.04</b>	<b>43,350,408.48</b>	<b>3,649,160.68</b>	<b>43,789,928.16</b>
<b>TOTAL BASIC and NON-BASIC</b>		<b>8,087,376.80</b>	<b>97,048,521.60</b>	<b>8,085,897.44</b>	<b>97,030,769.28</b>
<u>PRV/SPI COMPARISON</u>					
Basic SPI Calculation		Proposed Revenues		4,436,736.76	53,240,841.12
		Base Revenues		4,474,842.76	53,698,113.12
		Result		0.9915	0.9915
		X 100		99.15	99.15
Non-Basic SPI Calculation		Proposed Revenues		3,649,160.68	43,789,928.16
		Base Revenues		3,612,534.04	43,350,408.48
		Result		1.0101	1.0101
		X 100		101.0139	101.0139
Current Year PRI (Attachment B)				101.1028	101.1028